HOME OIL COMPANY LIMITED

Annual Report • 1957

HIGHLIGHTS OF THE DIRECTORS' REPORT

	1957	1956
Gross income from operations	$ 9,096,853	$ 8,712,094
Oil production — net barrels	3,092,797	3,244,109
Daily average net production — barrels	8,473	8,864
Wells drilled — gross	30	104
Land holdings — net acres	768,564	674,282
Oil and LPG reserves — barrels Proven and probable	88,013,000	61,263,000
Gas reserves — thousand cubic feet Proven and probable	306,000,000	359,000,000
Pipeline throughput — daily average	5,945	7,027
Shareholders	11,413	10,430
Employees	255	249

This photograph was taken at Virginia Hills early in December 1957 — another important area in your Company's operations.

HOME OIL COMPANY LIMITED

Annual Report 1957

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OUR COVER for this year's annual report and the photographs used throughout have been chosen to feature the Swan Hills-Virginia Hills areas of Alberta where Home Oil's exploratory efforts are proving up large reserves of crude oil.

Map showing properties of Home Oil Company Limited

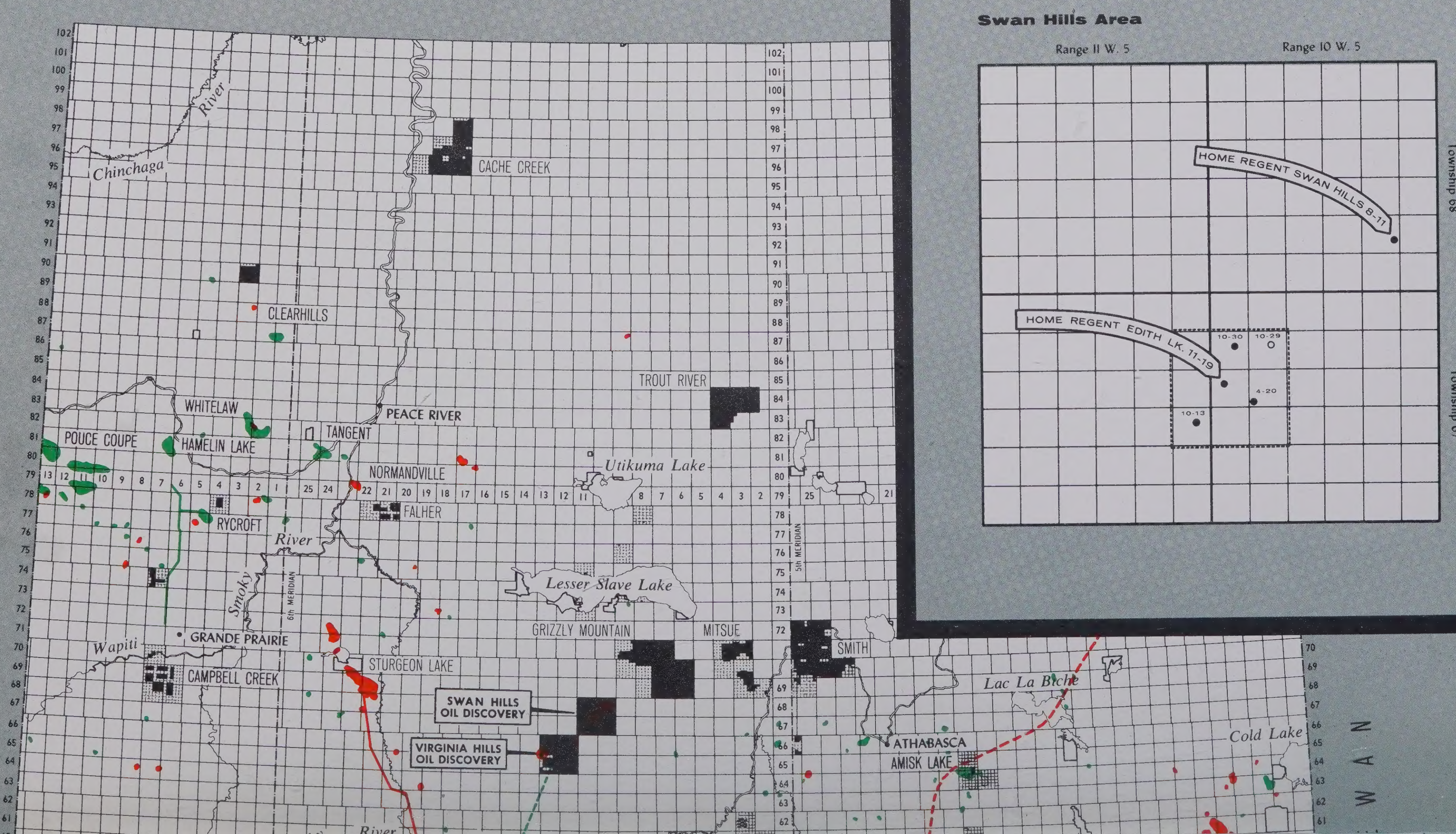
Province of Alberta

Oil and Gas Map

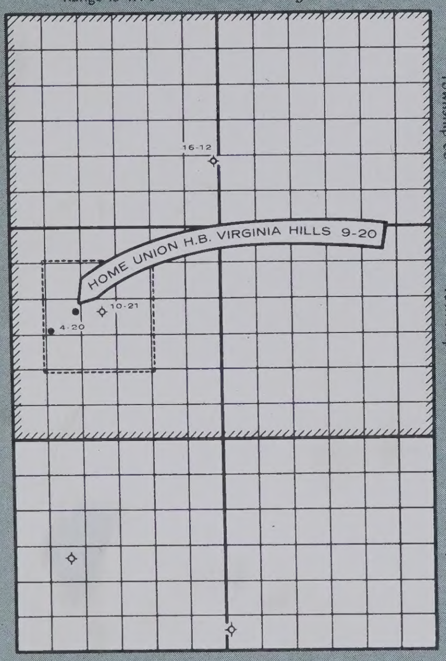
(INDICATING PROPERTIES OF HOME OIL COMPANY LIMITED)

HOME OIL COMPANY LIMITED

- Property in which Home Oil has varied interests
- Oil Fields
- Gas Fields
- Oil Well
- Location or Drilling
- Abandoned Well
- Oil Pipe Lines
- Gas Pipe Lines
- Proposed Pipe Lines



Virginia Hills Area



HOME OIL COMPANY LIMITED

Directors

* R. A. BROWN, JR.	Calgary, Alberta
* R. M. BROWN	Vancouver, B.C.
* A. CLARK	Calgary, Alberta
* E. F. DAVIS	Los Angeles, California
M. A. DUTTON	Calgary, Alberta
* B. W. GILLESPIE	Calgary, Alberta
* J. W. MOYER	Calgary, Alberta
W. A. ROCKEFELLER	New York, N.Y.
J. B. WEIR	Montreal, Quebec
* R. WILL	Calgary, Alberta
A. H. WILLIAMSON	Vancouver, B.C.

* Member Executive Committee

Officers

J. W. MOYER	*Chairman, Board of Directors*
R. A. BROWN, JR.	*President and Managing Director*
J. A. SCRYMGEOUR	*Executive Vice-President*
R. M. BROWN	*Vice-President*
A. CLARK	*Vice-President*
B. W. GILLESPIE	*Vice-President*
J. W. HAMILTON	*Secretary*
W. H. ATKINSON	*Treasurer*
M. C. GOVIER	*Comptroller*

Auditors

RIDDELL, STEAD, GRAHAM & HUTCHISON

Solicitors

MACLEOD, MCDERMID, DIXON, BURNS, MCCOLOUGH, LOVE and LEITCH

Bankers

THE CANADIAN BANK OF COMMERCE

Transfer Agents

CROWN TRUST COMPANY

EMPIRE TRUST COMPANY

Registrars - Capital Stock

CROWN TRUST COMPANY

THE CANADIAN BANK OF COMMERCE TRUST COMPANY

Listings

TORONTO STOCK EXCHANGE

VANCOUVER STOCK EXCHANGE

CALGARY STOCK EXCHANGE

MONTREAL STOCK EXCHANGE

AMERICAN STOCK EXCHANGE

PACIFIC COAST STOCK EXCHANGE

Head Office

304 - 6TH AVENUE WEST, CALGARY, ALBERTA

To the Shareholders of

HOME OIL COMPANY LIMITED

The year 1957, for the Home Oil Company Limited, was highlighted by the important oil discoveries in the Swan Hills-Virginia Hills areas and by your Company becoming one of the largest shareholders of Trans-Canada Pipe Lines Limited.

exploration

The exploratory successes at Swan Hills and Virginia Hills have made this part of Alberta one of the most significant areas in North America. No attempt has been made to estimate, except for already proven locations, the extent of these reservoirs or the probable oil reserves, and it will take several years of drilling before the size of the fields is outlined. Already between our original Swan Hills discovery and the two recent stepout successes, lies an area larger than the Harmattan field on which 67 producing wells have been drilled. The Company's fundamental policy, which provides for maximum expenditure on exploration, has always been based on the expectation of making such discoveries as Westward Ho, Harmattan and now at Swan Hills and Virginia Hills. The results are deeply gratifying.

Trans-Canada Pipe Lines Limited

During the year under review and early in 1958 your Company has acquired substantial shareholdings in Trans-Canada Pipe Lines Limited. As of the date of this report the Company owns 841,334 shares and has the right to acquire an additional 158,666 at $15.00 per share, making a total of 1,000,000 shares. Reference is made to the financial section of this report for further details of the Company's investment. The basic reason for our acquisition of Trans-Canada shares is twofold. Firstly, our estimates indicate that Trans-Canada will enjoy a similarly profitable long term growth that has been characteristic of the large gas transmission companies in the United States; and, secondly, this investment has enabled the Company to obtain maximum participation in Canada's rapidly expanding natural gas development while, at the same time, diversifying its assets.

crude oil markets

The past year was a difficult one for the Canadian oil industry, though most of the stresses were caused by forces outside our country. The Suez crisis created a sudden heavy demand for our oil, a demand that disappeared as tension eased. This was followed by the recent imposition of import quotas by the United States. This, coupled with an unusually large United States inventory of products and a preference of major U.S. refiners for use of their wholly owned foreign crude, reduced markets for Canadian crude oil. In its quota policy, the United States treats Canadian oil on the same basis as other foreign crudes. Thus, our oil exports to the United States are now subject to quota restrictions that have unfavourable long term implications, together with a 10½¢-per-barrel American tariff.

the Levy report

It has been apparent to your directors for some time, that independent producing companies like Home Oil are handicapped by a lack of economic data on the Canadian petroleum industry. We joined with a group of other independents to obtain an authoritative study of potential Canadian oil markets by Mr. Walter Levy, an outstanding authority in petroleum economics. The Levy report, published early in 1958, has had a profound effect on the industry. For the first time, we have an analysis of the implications of world wide oil economics to the Canadian industry. It gives us a firm basis upon which to advocate that the 250,000 barrels-per-day Montreal refining market is vital to the continued growth of the Canadian oil industry. We are convinced that serving the needs of the Montreal refiner provides Canadian oil producers with the only secure means of expanding their crude production. We shall press vigorously to obtain this market for Canadian oil producers.

future prospects

Recognition of problems which confront the Canadian producers in their search for additional markets for petroleum products, should not be taken by the shareholders as an indication that your directors are pessimistic on the prospects for continued resources development and opportunity in Western Canada. On the contrary, your Company has before it at this time several outstanding projects, each of which is fully deserving of the capital necessary to bring it to completion. Two examples of such projects are as follows:

1. We have before us water flood projects for the Turner Valley and Pembina fields, which our engineers estimate will materially increase our recoveries of oil from these proven reservoirs. Work has already started and prospects are particularly encouraging in Turner Valley, a field which is so closely linked to the history of this Company and the Canadian oil industry.

2. Your Company has filed an application for the construction of a pipeline from the Swan Hills field to Edmonton to provide an outlet for our rapidly expanding production capacity. It is anticipated that construction of this pipeline will start during the spring of this year.

Royal Commission

The appointment of the Royal Commission on Energy to study the markets for our oil and gas resources, has given the Canadian petroleum industry an unequalled opportunity to present its case before the public. Many outstanding briefs were presented to the Commission. Of particular interest to Home Oil was the analysis of the growth in the demand for natural gas in Eastern Canada. The study, prepared by consultants of Trans-Canada Pipe Lines Limited, indicates that this market will expand much more rapidly than was estimated even a year ago.

This report is welcome indeed for its own value to Trans-Canada, and to the gas producers of Alberta. It is also a vindication of the faith of those who planned this great Canadian project.

To supplement our exploration programme, arrangements were completed with the Kern County Land Company, a large California company, whereby it will join with Home Oil in joint exploratory operations in Western Canada. Kern County will take a 25% interest in all new ventures entered into by Home Oil.

The results of the Cremona pipe line operation have fully met our expectations. Calgary refiners are expanding their plant capacities and we look forward to increased throughputs in our pipeline operations, which during its first full year averaged 5,945 barrels per day.

production

Gross production from wells in which the Company owns or has an interest, totalled 5,922,000 barrels, and net production 3,092,797 barrels for an average of 8,473 barrels per day. Production at the end of the year and during the first quarter of 1958 has been somewhat below this average level and reflects the problems related to marketing the growing reserves in Alberta.

income

Gross income from operations totalled $9,096,853 for the year 1957. Crude oil and gas income totalled $8,431,409 and revenue from pipeline operations amounted to $665,444. During the year, the assets of the wholly owned subsidiary, Cremona Pipe Lines Limited, were acquired and the pipeline now is operated as the Pipeline Division of Home Oil.

The major oil discoveries of recent years and the rapid growth and expansion of your Company are attributable in great measure to the loyal co-operation of the employees of Home Oil Company. Your directors express their sincere appreciation for the part played by the Home Oil staff in 1957.

There follows a detailed review of the Company's operations together with the audited financial statements for the year 1957.

Submitted on behalf of the Board of Directors,

R. A. Brown Jr.

President and Managing Director.

Calgary, Alberta.
April 3, 1958

1957 FINANCIAL REVIEW

Gross income

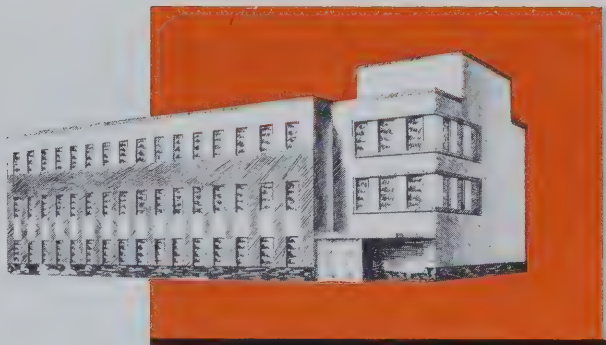
From operations	$ 9,096,853
Interest	123,990
Other income	155,385
	$ 9,376,228

How it was used

Operating and general expenses	$ 2,291,250
Exploration, rentals, dry hole costs and surrendered leases	2,993,495
Depreciation and depletion	3,427,791
Interest and expense on debt	1,406,065
Taxes on income	24,912
Minority interest in income	2,253
	$10,145,766
Loss for the year	$ 769,538

Income before capital write offs

Loss for the year		$ 769,538
Capital write offs		
Depreciation and depletion	$3,427,791	
Surrendered leases	687,837	
Dry hole costs	976,529	5,092,157
INCOME BEFORE CAPITAL WRITE OFFS		$ 4,322,619
LONG TERM BORROWINGS		$ 1,100,000
DECREASE IN WORKING CAPITAL		$11,727,342
CAPITAL EXPENDITURES (including dry hole costs)		$ 4,532,789
INVESTMENT — Trans-Canada Pipe Lines Limited		$12,985,194
DIVIDENDS — Class A Shares		$ 378,883
REPAYMENT OF LONG TERM DEBT		$ 338,890



REVIEW OF THE YEAR'S OPERATIONS

Financial

Gross income from operations amounted to $9,096,853 in 1957 as compared with $8,712,094 in 1956. The distribution of gross income is set out in the summary on the preceding page.

Income before capital write-offs for depreciation and depletion, surrendered leases and dry hole costs was $4,322,619 in 1957 as compared with $4,586,135 in 1956. After deducting these items there was a loss of $769,538 for the year.

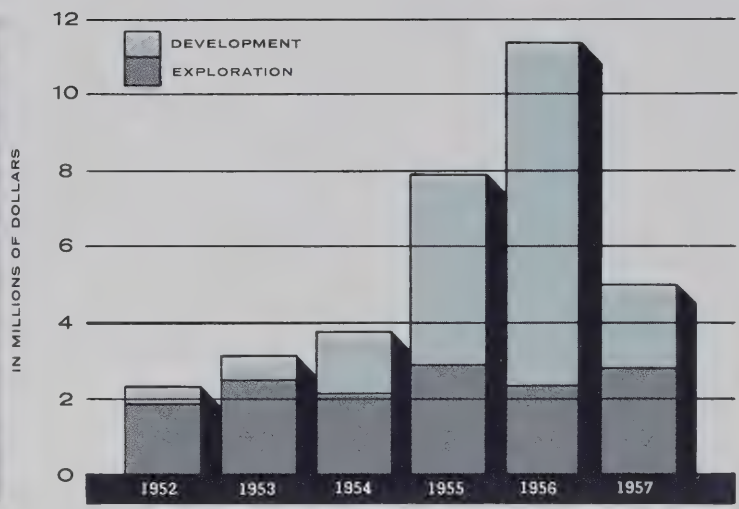
The extensive exploration programme undertaken in recent years has resulted in increased charges against income for dry hole costs, exploration, surrendered leases and related items. As a result of this programme, however, the Company has discovered and proven considerable reserves of oil and natural gas.

Capital expenditures, including dry hole costs were $4,532,789 in 1957 as compared with $13,428,205 in the previous year.

During the year the Company has also invested $12,985,194 in Trans-Canada Pipe Lines Limited, acquiring 514,200 common shares. Since the year end the Company has acquired an additional 327,114 shares, together with the right to purchase an additional 158,666 shares at $15.00 per share by the purchase and conversion of 5½% Subordinated Convertible Income Notes. Certain of these shares and rights were acquired by the exchange of oil and gas properties valued at $5,791,855. The net book value of the properties transferred was $2,377,366. If and when the Company exercises its right to purchase the additional 158,666 shares, it will hold a total of 1,000,000 shares.

During the year, an issue of $2,000,000, 6½% Secured Sinking Fund Pipeline Bonds was authorized to finance construction costs of the Cremona Pipe Line system. Of this issue, $1,100,000 principal amount was sold in 1957 and the balance of $900,000 was sold early in 1958. The total investment in the system amounts to approximately $2,750,000.

EXPLORATION AND DEVELOPMENT EXPENDITURES



Exploration and development

The development of proven properties during 1957 was concentrated in the Harmattan-Elkton, Westward Ho and East Harmattan fields. This programme resulted in the completion of 15 oil wells, two capped gas wells and two abandoned wells. Drilling operations were continuing on four additional development wells at the year's end. In addition to the development drilling, the Company held varying interests in 16 completed exploratory wells. Six exploratory wells were being drilled at the year's end.

Development drilling during 1958 will be concentrated mainly on our Swan Hills and Virginia Hills acreage. This heavily timbered region, with rugged terrain, makes for slower initial progress than usual. Heavy equipment and supplies must be moved in during the winter to take maximum advantage of good winter drilling conditions. The three rigs which were moved in after freeze-up drilled five wells during the season.

The completion of an all-weather access road will permit the development of the area on a year-round basis. Meanwhile, summer drilling will be curtailed for sound reasons of economy.

The outstanding success of your Company's exploratory efforts in the Swan Hills and Virginia Hills areas 125 miles northwest of Edmonton in 1957, is probably the most significant event in the history of Home's search for oil.

Of the four wildcats drilled there by Home Oil, three were oil discoveries in the Devonian Slave Point formation. By drilling these four wells, the Company earned a 20.8% interest in the 92,000-acre Virginia Hills reservation and 31.25% interest in the Swan Hills block of 92,000 acres.

Our first Swan Hills well, Home-Regent-United et al 8-11 recovered 2,400 feet of oil on drillstem test from the Slave Point. Lack of storage and a rainsoaked terrain made it impossible to give this well a full production test. It was shut in while the next well was drilled six miles southwest of the discovery well in what is known as the Edith Lake area. One of the best wells ever drilled by Home Oil Company, it found 146 feet of Slave Point porosity. A third well has been completed in the Swan Hills area, three others are now being drilled, and one proven productive well is awaiting completion.

Following the Virginia Hills discovery, an unsuccessful wildcat and a stepout were drilled. A second stepout, one mile southwest of the discovery well, was successfully completed as an oilwell.

In the same general trend, Home Oil is drilling a wildcat 20 miles northeast of the Swan Hills discovery on a 165,000-acre farmout known as the Grizzly Mountain tract. This wildcat will test the multiple zone possibilities of the area and its completion will earn Home Oil a 21.8% interest in the acreage.

Several farmouts were made during the year to other companies. Two wildcats were drilled on our South Alhambra acreage 35 miles west of Red Deer, Alberta. Though neither found oil, both found excellent reservoir rock in the Mississippian formation and point to interesting oil possibilities yet to be tested. With partners, Home Oil is now participating in another wildcat in this area. A well drilled on a farmout a mile northwest of the Westward Ho field was successfully completed as an oil well.

Home Oil is participating in a farmout of 90,000 acres 30 miles southeast of the Red Earth discoveries and about 100 miles northeast of Swan Hills. Several other attractive farmouts have been obtained recently and drilling by your Company to evaluate them will start in 1958.

In the fall of 1957, negotiations were carried on with Kern County Land Company which resulted in the signing of an agreement early in 1958, whereby Kern County Land Company will join Home Oil Company to the extent of 25% in all new exploratory ventures carried on in Western Canada. This agreement will permit wider participation in exploratory ventures. Kern County Land Company is a substantial independent oil and land company with headquarters in San Francisco, California. Their first participation with Home was on a half section parcel in the East Harmattan field, where two excellent producers have been completed to date. Two more wells are presently drilling. This field is a newly discovered pool four miles east of the main Harmattan field.

The recent discovery of oil on the Kenai Peninsula near Anchorage, Alaska, has fixed attention on the oil possibilities of that region. Your Company, together with a group of other oil companies, has taken Federal leases in several prospective areas in the Bristol Bay area about 350 miles west of Anchorage. The group of leases in which your Company has an eighth interest comprises 800,000 acres.

More recently, the group filed on an additional 800,000 acres in the Bethel Basin area north of Bristol Bay. Home's net interest in the 1,600,000 acres is 200,000 acres. No plans for exploration of these lands are presently contemplated. It is considered most likely that at least part of these lands will be farmed out to other oil companies for exploration and drilling within the next two or three years.

Exploratory and development drilling of our Swan Hills holdings is proceeding as quickly as possible having regard to the difficulty of the terrain and lack of access roads. Though this field is still in an early stage of development, results so far have been so encouraging that Home and its main partner, are proceeding with plans to build a 125 mile pipeline from Swan Hills to Edmonton. Engineering studies are complete and it is hoped to begin construction this spring.

Engineering and production

COMPANY SHARE OF PRODUCTION

Field	1957	1956
	Barrels	
Pembina	710,163	813,858
Turner Valley	564,147	640,345
Leduc-Woodbend	497,914	573,489
Harmattan-Elkton	428,498	284,707
Redwater	400,959	533,867
Erskine	236,723	192,435
Westward Ho	140,267	80,874
Joarcam	80,543	95,570
Stettler	16,812	19,077
Glenevis	8,688	4,847
Sundre	6,902	1,121
Lulu Lake, Manitoba	743	3,919
Swan Hills - Virginia Hills	283	—
Granada	155	—
	3,092,797	3,244,109

The Company's net share of crude oil production averaged 8,473 barrels per day and totalled 3,092,797 barrels for the year 1957. The restricted market demand for Alberta crude oil adversely affected the Company's production. The production was obtained from a total of 400 wells in which varying interests are held, representing a net working interest of 242.7 wholly owned wells.

Province	P. & N.G. Leases		Reservations and Gas Licenses		Totals	
	Gross	Net	Gross	Net	Gross	Net
ALBERTA	754,087	279,067	1,029,544	438,911	1,783,631	717,978
SASKATCHEWAN	74,611	8,464	—	—	74,611	8,464
MANITOBA	1,752	374	—	—	1,752	374
ONTARIO	166,992	41,748	—	—	166,992	41,748
Totals	997,442	329,653	1,029,544	438,911	2,026,986	768,564

Exploration acreage holdings

December 31, 19

In addition to the above Home holds varying royalty interests in a total of 30,953 exploratory acres in Alberta, 3,520 acres in Manitoba and 80 acres in Saskatchewan.

In the United States, Home Oil holds a 50% interest in a total of 5,929 acres and through American subsidiaries holds a 25% interest in 96,842 net acres.

	Development	Exploratory	Total
Gross Wells	17	13	30
Net Wells	11.3	5.0	16.3
Oil	8.9	0.8	9.7
Gas	1.6	—	1.6
Dry	0.8	4.2	5.0

1957 Drilling record

December 31, 19

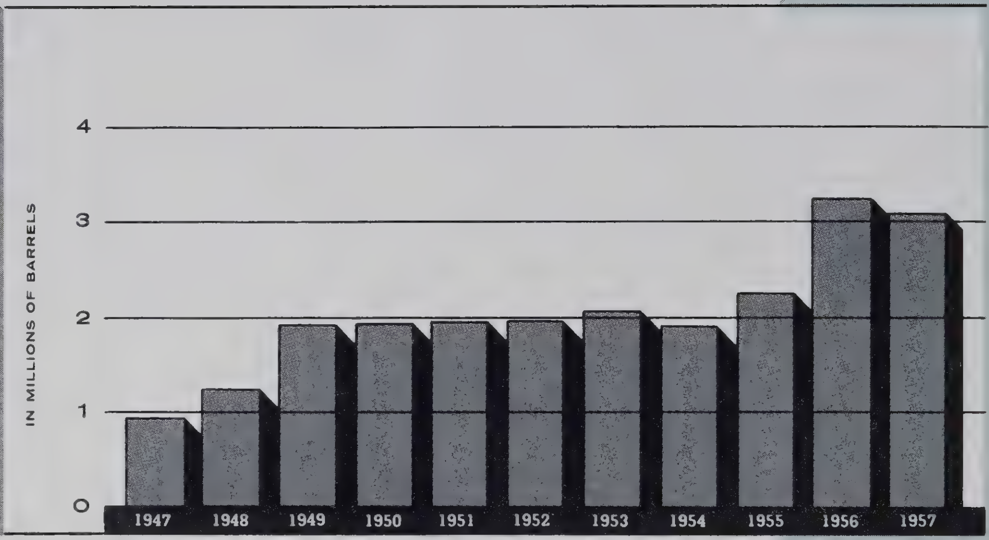
In addition to the above Home participated in further drilling operations through land contributions. This consisted of two development wells of which one was completed as an oil well (Home 3.875 Gross Royalty) and one as dry and abandoned. Also three exploratory wells of which all were dry and abandoned.

At the year's end there were 10 wells currently drilling in which Home had an interest.

ANNUAL

NET

PRODUCTION

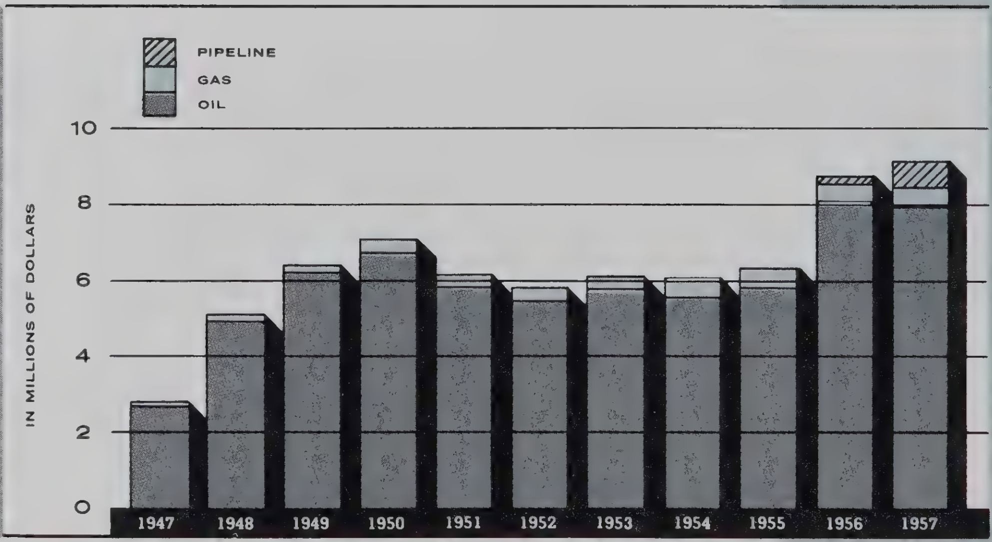


GROSS

INCOME

FROM

OPERATIONS



Reserves

The Company's reserves have been estimated by McDaniel Consultants Ltd. as of January 1, 1958. The estimates appear below:

Crude Oil Reserves (Barrels)

Proven developed	35,076,000
Proven undeveloped	8,750,000
Probable additional	37,865,000*
	81,691,000

Natural Gas Liquids (Barrels)

Proven developed	3,837,000
Proven undeveloped	2,172,000
Probable additional	313,000
	6,322,000
Total Crude Oil and Natural Gas Liquids	88,013,000

Natural Gas (M.c.f.)

Proven developed	186,762,000
Proven undeveloped	81,340,000
Probable additional	37,470,000
	305,572,000

* Includes 36,349,000 barrels of additional reserves anticipated from water flooding gains in the Pembina and Turner Valley fields.

Normal reserve calculation practices have been followed in assigning reserves to completed wells and to areas considered proven by completed wells in the Swan Hills and Virginia Hills region. However, these reservoirs have not been sufficiently delineated to make possible a realistic appraisal of so large an area. Therefore, no "probable additional" reserves have been included for Swan Hills - Virginia Hills.

Water flood studies have been made in detail on all of the properties owned by Home Oil Company located in the Pembina field and on properties owned in the north end of Turner Valley field by the consulting firm of James A. Lewis, who are petroleum reservoir analysts. These detailed studies confirm that the large volumes of oil indicated in the above report will be recovered by the injecting of water into the reservoir in such a way as to force out oil which would not be otherwise recoverable. There are presently 760 acres of Home Oil properties being water flooded in the Pembina field.

It is planned to proceed with further water flood installations in Pembina this coming summer. A pilot water flood project is scheduled to start this spring in the North Turner Valley field and, if successful, will be followed by the main project in the summer of 1959. There is a possibility of obtaining increased oil recoveries from other fields in which the Company has an interest, by using secondary recovery methods.

Natural Gas

It will be noted that your Company's gas reserves are reduced in 1957 from the level of 1956. This is a result of the exchange of 40% of our gas reserves in the Nevis field for shares of Trans-Canada Pipe Lines Limited. Included in this exchange were our interests in nine wells in the Harmattan field and eight wells in the Pembina field representing a total daily production of approximately 675 barrels per day.

Natural gas sales in 1957 amounted to 6,122,928 mcf and 65,074 barrels of L.P.G. products. Natural gas is presently being marketed from Turner Valley, Jumping Pound, Leduc-Woodbend, Fort Saskatchewan and Bindloss fields. The last named was joined to markets in 1957 and the Atlee-Buffalo field in the same area will be hooked into the Trans-Canada system in 1958. It is also anticipated that gas from the Pembina field will be connected to market in 1958.

The completion of the Trans-Canada pipeline will undoubtedly result in expansion of markets for Alberta gas. Home Oil Company's reserves place it in an advantageous position to profit from these expanding natural gas markets.

A firing line of welders work across farmlands on the Alberta - Saskatchewan border as Trans-Canada's natural gas line pushes eastward.

34-inch pipe is shown here being prepared as it is lowered down the bank of Swift Current Creek. The coating and wrapping machine is covering the pipe to prevent corrosion.

The staccato sound of jack hammers echoes among the pines near the Manitoba-Ontario border as crews prepare shot holes for high explosives which will be used to blast a ditch through the granite of the Canadian Shield.

ANADA PIPE LINES LIMITED

We have referred to our important financial interest in Trans-Canada Pipe Lines Limited, and are including a brief outline of that company in this report.

Trans-Canada Pipe Lines Limited was incorporated in 1951 and after delays was granted a permit by the Province of Alberta on May 14, 1954, to deliver 4.35 trillion cubic feet of natural gas over a twenty-seven year period from Alberta to the Eastern Canadian markets.

The 2,294-mile main transmission system begins at the Alberta-Saskatchewan border and will terminate at Montreal. At full capacity, it will receive approximately one billion cubic feet of gas per day. In addition, Trans-Canada has constructed 76 miles of 20-inch line from Niagara to Toronto and has other smaller lateral lines under construction.

By the end of 1957, the section from Alberta to Winnipeg, a distance of 585 miles was completed with 34-inch diameter pipe and the 396 miles of 30-inch line was laid from Winnipeg to Port Arthur. In 1958, the Northern Ontario section of 853 miles of 30-inch line will be completed.

The 678-mile section included in the above Ontario portion, between the Ontario-Manitoba border and Kapuskasing, Ontario, known as the "Crown Section", is being constructed under Trans-Canada direction for the Northern Ontario Pipe Line Crown Corporation to be leased to Trans-Canada with the right to purchase.

As a transmission company, Trans-Canada confines itself to the wholesaling of natural gas to local distributors rather than going into consumer distribution. In Eastern Canada, markets for natural gas have been developed by distributors in Toronto through importation of American gas via the pipeline from Niagara completed in 1954, and in Montreal starting this winter, by gas from fields in southwestern Ontario. American imports will cease when Alberta gas is available in 1958.

The response to natural gas in these areas and the industrial demand in Northern Ontario are greater than originally anticipated. The feasibility report on Trans-Canada, which preceded the public financing of the company, showed a Canadian demand for the gas year 1962-63 of 186.7 billion cubic feet, equal to

511 million cubic feet per day. Evidence recently submitted to the Royal Commission on Energy by Trans-Canada's consultants, shows this annual figure is now estimated to be 255 billion. The possible export of gas to the United States at Emerson, Manitoba, now appears more favourable and should this develop, the annual sales in 1962-63 will be increased to 327 billion, equal to 896 million cubic feet per day.

If Canadian experience follows the pattern that has consistently developed in comparable United States areas, maximum use of natural gas can be expected in new housing in Ontario and Quebec. Gradual supplanting of coal and oil should take place as usage becomes common.

The total Canadian sales for period 1957-1988 have been estimated by the consultants at 18.8 trillion cubic feet. Export at Emerson would increase this total by 2.2 trillion cubic feet so that the total gas requirements from Alberta including fuel and line loss in this 31-year period amounts to 23.07 trillion cubic feet. The magnitude of this figure can be best appreciated by a comparison with the estimates of present proven reserves for Alberta compiled by the Canadian Petroleum Association. The Association estimates 17.7 trillion cubic feet proven plus 8.9 trillion cubic feet probable as at December 31, 1957.

As natural gas requirements are usually contracted for on a twenty-year basis, a market for Alberta's surplus gas has been assured by the Trans-Canada system.

Where there was once doubt that there was a sufficient market in Canada to sustain so large a project, the question now being asked is how to keep abreast of the expanding demand. This projected growth, which occurred in the interval of slightly over one year, confirms your Company's judgment in the growth potential inherent in Trans-Canada Pipe Lines Limited.

Financial Statements

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Home Oil Company Limited (incorporated under the Companies Act of Canada) and subsidiary companies as at December 31, 1957 and the related statements of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have obtained all the information and explanations we have required and, in our opinion, the accompanying consolidated balance sheet and related statements of consolidated income and earned surplus were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and present fairly the financial position of Home Oil Company Limited and subsidiary companies as at December 31, 1957 and the results of their operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the companies.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants.

Calgary, Alberta
March 18, 1958

Consolidated Balance Sheet

Assets

	As at December 31	
Current Assets	**1957**	**1956**
Cash	$ 412,720	$ 1,393,331
Short term investments, at cost (market value 1957 — $189,773; 1956 — $474,191)	188,379	481,400
Receivable from sale of debentures	—	6,321,384
Accounts receivable	1,809,098	1,824,060
Due from affiliated company	27,858	6,808
Inventories of materials and supplies, at lower of cost or market	1,046,815	1,239,354
	3,484,870	11,266,337
Cash in Hands of Sinking Fund Trustee	305,500	—
Investments		
Trans-Canada Pipe Lines Limited (Note 2)	12,985,194	—
Trans-Border Oils Ltd., at estimated realizable value	310,639	877,351
Other investments, at cost	275,671	170,634
	13,571,504	1,047,985
Property, Plant and Equipment, at cost		
Land, leases and development costs thereon		
Producing	49,198,159	48,295,962
Less — Accumulated depletion	(25,597,932)	(24,141,806)
Non-producing	5,230,470	5,628,700
Buildings, plant and equipment	10,948,456	10,240,257
Less — Accumulated depreciation	(5,486,353)	(4,907,017)
	34,292,800	35,116,096
Other Assets and Deferred Charges		
Unamortized debt discount and expense	700,644	706,106
Miscellaneous	204,784	186,870
	905,428	892,976
	$52,560,102	$48,323,394

The accompanying notes to financial statemen

HOME OIL COMPANY LIMITED

and Subsidiary Companies

Liabilities

	As at December 31	
Current Liabilities	**1957**	**1956**
Due to bank — demand loan (secured)	$ 4,229,950	$ —
Accounts payable and accrued charges	2,040,597	2,264,389
Dividend payable	190,761	187,481
Current portion of long term debt	520,252	463,390
Estimated liability for taxes on income	64,081	184,506
	7,045,641	3,099,766
Long Term Debt (Note 3)	23,131,863	22,505,616
Minority Interest in Subsidiary Companies	17,287	78,947
Capital Stock and Surplus		
Capital stock (Note 4)		
Authorized —		
4,343,873 Class A shares of no par value		
3,656,127 Class B shares of no par value		
Issued and fully paid —		
1,526,221 Class A shares (1956 — 1,500,000)	8,142,027	7,768,208
2,321,231 Class B shares (1956 — 2,303,331) (including 275,506 Class B shares held by subsidiary companies — see below)	12,124,697	11,952,198
	20,266,724	19,720,406
Earned surplus — per statement attached (Note 5)	5,514,283	6,662,704
	25,781,007	26,383,110
Less — Cost of 275,506 Class B shares (1956 — 299,506) held by subsidiary companies	3,415,696	3,744,045
	22,365,311	22,639,065
	$52,560,102	$48,323,394

Approved on behalf of the Board:

R. A. Brown Jr. Director

Alex Clark Director

e an integral part of the above balance sheet.

Statement of Consolidated Income

	For the Years Ended December 31	
	1957	**1956**
Income		
Gross income from operations	$ 9,096,853	$8,712,094
Interest	123,990	21,072
	9,220,843	8,733,166
Expense		
Operating expense	1,546,821	1,190,981
General and administrative expense	744,429	628,403
Exploration expense	977,340	656,757
Dry hole costs	976,529	645,867
Non-producing property expense	351,789	313,969
Surrendered leases	687,837	1,534,707
Depreciation and depletion	3,427,791	3,152,032
Interest and expense on long term debt	1,279,728	380,241
Other interest	126,337	314,524
	10,118,601	8,817,481
Loss before taxes on income and other income	897,758	84,315
Other Income (Deductions)		
Gain resulting from the sale of subsidiary company and miscellaneous investments	155,385	—
Write-down of investment in Trans-Border Oils Ltd.	—	(500,000)
Loss before taxes on income	742,373	584,315
Provision for Taxes on Income of subsidiary companies	24,912	158,673
	767,285	742,988
Minority Interest in income of subsidiary companies	2,253	3,258
Loss for the year	$ 769,538	$ 746,246

Statement of Consolidated Earned Surplus

For the Year Ended December 31, 1957

Balance as at January 1, 1957		$6,662,704
Deduct — Dividends on Class A shares	$ 378,883	
Loss for the year	769,538	1,148,421
Balance as at December 31, 1957		$5,514,283

Notes to Financial Statements

December 31, 1957

Note 1 Principles of Consolidation

The consolidated financial statements of the company and subsidiaries include the accounts of all companies in which the company, directly or indirectly, has ownership of more than 50% of the issued capital stock.

Note 2 Trans-Canada Pipe Lines Limited

The company, as at December 31, 1957, held 514,200 common shares of Trans-Canada Pipe Lines Limited at a cost of $12,985,194.

Pursuant to certain agreements entered into during 1957 the company has subsequent to December 31, 1957, paid $3,049,030 (net) cash and transferred certain oil and gas properties, valued at $5,791,855, in exchange for 283,455 shares of Trans-Canada together with the undernoted rights and obligations:

(a) The obligation to purchase from time to time, when called upon to do so in the event of certain deficiencies in the earnings of Trans-Canada during the period November 1, 1958 to December 31, 1963, up to $7,140,000 principal amount of 5½% subordinated convertible income notes due 1987. (These notes are convertible after July 1, 1964 into shares of $15 per share).

(b) The right to purchase at any time from November 1, 1958 to December 31, 1963, one-third of the above described notes ($2,380,000 in principal amount convertible into 158,666 shares).

The oil and gas properties transferred had a net book value of $2,377,366 at December 31, 1957 and produced gross income of approximately $583,000 and net income, after lifting costs, depreciation and depletion, of approximately $255,000 in 1957.

Note 3 Long Term Debt

Details of long term debt	December 31 1957	1956
5% Convertible Subordinated Debentures due July 1, 1971 (convertible into Class A shares and subject to sinking fund)	$ 7,241,000	$ 7,500,000
5½% Secured Notes due September 1, 1971 Series A	3,000,000	3,000,000
Series B ($5,500,000 U.S.) (issued with Class A share purchase warrants and subject to sinking fund)	5,310,799	5,310,799
5¾% Secured Convertible Sinking Fund Debentures, 1956 Series, due December 15, 1971 (one-half of $6,251,000 convertible into Class A shares)	6,375,500	6,500,000
6½% Secured Sinking Fund Pipe Line Bonds due November 1, 1977 Series A (Canadian funds)	1,100,000	—
6¼% Secured Sinking Fund Pipe Line Bonds due November 1, 1977 Series B (U.S. funds)	—	—
5½% Mortgage due September 1, 1975 (payable in monthly instalments)	624,816	658,207
	23,652,115	22,969,006
Less — Current portion	520,252	463,390
	$23,131,863	$22,505,616

The 6¼% Secured Sinking Fund Pipe Line Bonds, Series B, were authorized in the amount of $900,000. By supplementary deed of trust and mortgage dated January 31, 1958, the Series A and Series B became 6½% Secured Sinking Fund Pipe Line Bonds (Canadian funds). Of this issue $900,000 were sold and the proceeds received by the company in 1958 (requiring an annual sinking fund payment in the amount of $45,000 commencing in 1958).

Notes to Financial Statements (continued)

Note 4 Capital Stock

There were 767,279 Class A shares reserved at December 31, 1957 for issuance upon conversion of debt and upon the exercise of warrants as follows:

5% Convertible Subordinated Debentures (convertible prior to July 1, 1971 at $15 per share)	482,743 shares
5½% Secured Notes, Series A and B (each $1,000 Note was issued with a purchase warrant entitling holder to purchase 7 Class A shares at $16 per share on or before September 1, 1966)	59,500 shares
5¾% Secured Convertible Sinking Fund Debentures, 1956 Series (convertible as to one-half of principal amount on or before December 15, 1966 — initial price effective until December 15, 1960 approximately $13.89 per share)	225,036 shares
	767,279 shares

As of December 31, 1957 there were outstanding options to purchase 78,750 Class B shares of the company's capital stock as follows:

(a) 15,000 Class B shares by a director and officer of the company, 10,000 of such shares at $15.00 (U.S.) per share exercisable in whole or in part on or before January 2, 1958 (not exercised) and 5,000 shares at $7.50 per share exercisable in whole or in part on or before October 1, 1958.

(b) 6,000 Class B shares by a director and employee of the company, one-third of such shares at $10.00 per share and two-thirds at $11.00 per share exercisable in whole or in part on or before March 8, 1959 provided that the option shall not be exercised in respect of more than 3,000 shares before January 30, 1958.

(c) 57,750 Class B shares by key employees of the company under an incentive option plan, 42,500 of such shares at $10.00 per share and 15,250 at $12.62 per share. The options are dated May 25, 1955 and February 13, 1957 respectively (46,500 and 15,250 originally granted). The terms of the option agreements provide that one-fifth of the optioned shares become exercisable in each of the five years commencing one year after the date of the granting of the options.

Note 5 Dividend Restriction

The trust deeds and indenture relating to the long term debt of the company contain certain restrictions on the payment of dividends. Under the most restrictive of these, no portion of the earned surplus as set forth in the consolidated balance sheet as at December 31, 1957 is available for the payment of dividends except for dividends on Class A shares of the company at an annual rate of not more than 25¢ per share.

Note 6 Executive Remuneration and Legal Fees

In arriving at the loss for the year, the following charges were included:

Executive remuneration	$178,451
Directors' fees	8,350
Legal fees	45,166

Note 7 Income Tax

The company was successful in an appeal to the Supreme Court of Canada under which it claimed it should be permitted depletion for tax purposes in 1949 and 1950 based on the income of individual wells. Income tax was paid and provided in the accounts based on depletion calculated on an overall basis and no adjustment has been made pending agreement with the Minister on the amount of refund due.

Producing Properties

as at December 31, 1957

PRODUCING OIL WELLS

Field	Gross Wells	Net Wells
Camrose	36	11.5
Erskine	20	17.5
Harmattan-Elkton	23	14.2
Leduc-Woodbend	69	33.7
Pembina	58	35.4
Redwater	24	18.0
Stettler	1	0.9
Sundre	2	1.2
Turner Valley	127	99.1
Westward Ho	19	8.3
Glenevis	2	0.7
Virginia-Swan Hills	3	0.8
	384	241.3

PRODUCING GAS WELLS

Turner Valley	9	8.5
Bindloss	5	.5
	14	9.0

CAPPED GAS WELLS

Amisk Lake	3	.8
Bindloss	14	2.9
Erskine	2	1.3
Harmattan-Elkton	3	2.1
Nevis	5	1.4
Priddis	1	0.2
Woodbend	1	0.3
Miscellaneous Areas	3	0.8
	32	9.8

ROYALTY INTERESTS

OIL

Camrose	4	0.2
Turner Valley	7	0.7
Leduc	4	0.4
Westward Ho	1	0.1
	16	1.4

GAS

Fort Saskatchewan	5	0.5

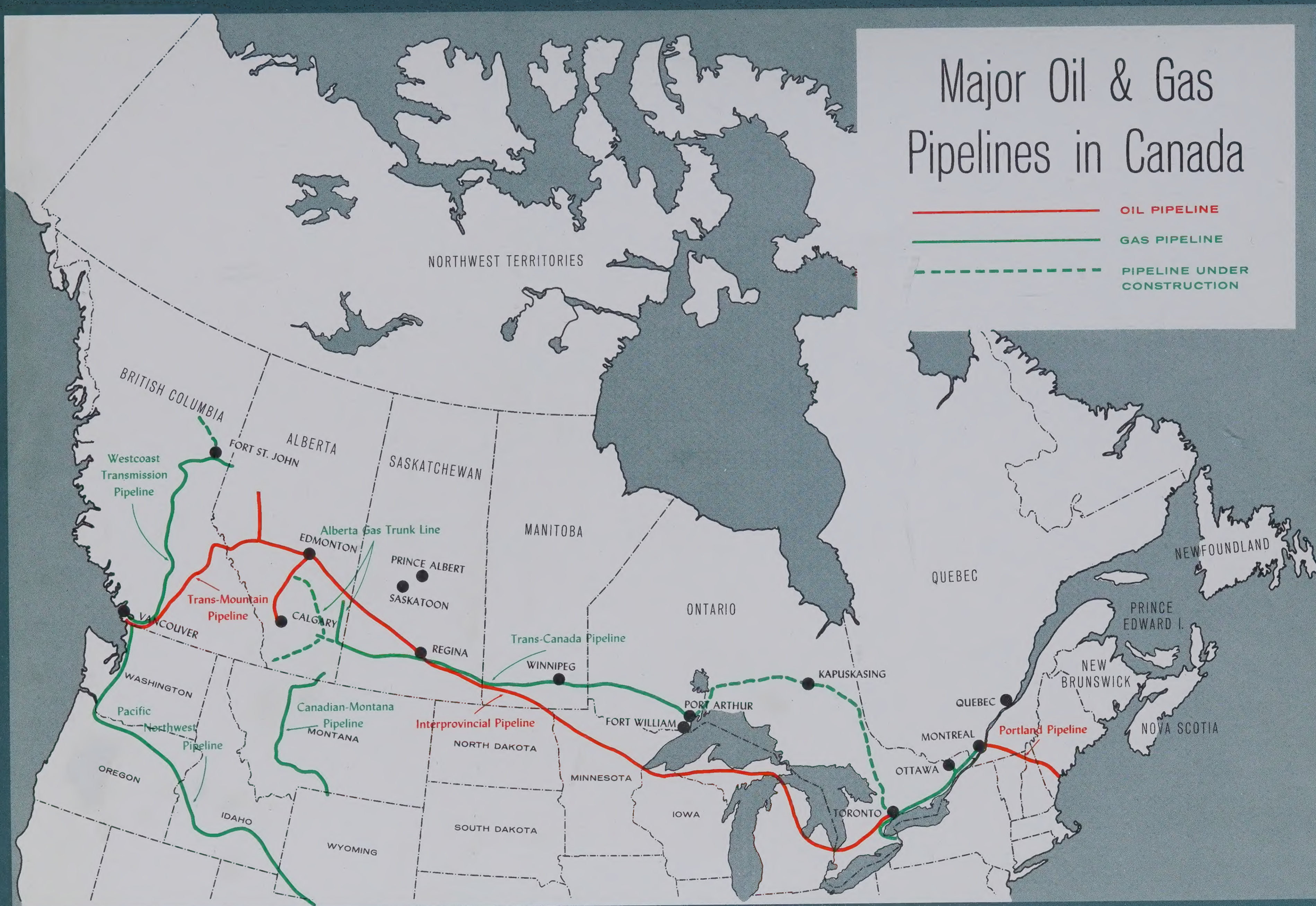
HOME OIL COMPANY LIMITED and Subsidiary Companies

4 years at a glance 1954 to 1957

	1957	1956	1955	1954
FINANCIAL				
Gross income from operations	$ 9,097,000	$ 8,712,000	$ 6,285,000	$ 6,004,000
Income before capital write offs	4,323,000	4,586,000	3,426,000	3,008,000
Net income (loss)	(770,000)	(746,000)	367,000	791,000
Capital expenditures including dry hole costs	4,533,000	13,428,000	7,709,000	3,716,000
Working capital	(3,561,000)	8,167,000	1,356,000	2,294,000
Properties, wells, plant and equipment less depletion and depreciation	34,293,000	35,116,000	26,680,000	21,356,000
Long term debt (due after one year)	22,826,000	22,506,000	6,234,000	2,520,000
RESERVES				
Crude Oil (bbls.)	81,691,000*	53,485,000*	34,620,000	25,500,000
Natural Gas Liquids (bbls.)	6,322,000*	7,778,000*	5,720,000	606,000
Natural Gas (billion c.f.)	306*	359*	367*	200
PRODUCTION				
Crude Oil (bbls.)	3,092,797	3,244,109	2,254,000	1,972,000
Natural Gas Liquids (bbls.)	65,074	59,600	70,000	63,000
Natural Gas (mcf)	6,122,928	5,690,747	6,920,000	6,494,000
WELLS DRILLED				
Gross	30	104	57	27
Net				
Oil	10	51	19	8
Gas	2	1	3	1
Dry	5	9	5	2
PRODUCING WELLS				
OIL				
Gross	400	404	315	282
Net	243	246	193	193
GAS				
Gross	14	14	13	13
Net	9	9	8	8
CAPPED GAS WELLS				
Gross	32	35	32	21
Net	10	9	9	6
EXPLORATION ACREAGE				
Gross	2,026,986	1,655,000	893,000	958,000
Net	768,564	674,000	400,000	322,000
PIPELINE THROUGHPUT				
Total	2,169,995	646,526	—	—
Average	5,945	7,027	—	—

* Includes probable additional reserves.
All statistical data appearing in this report refers to Home Oil & Federated Petroleums as if the amalgamation had been in effect during the periods referred to.

Major Oil & Gas Pipelines in Canada



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